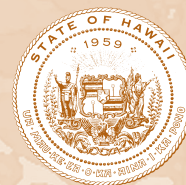


Holomua



Employees' Retirement System
of the State of Hawaii
Working to fulfill your retirement dreams...



New Option Factors - Effective January 1, 2014

In our last newsletter we reported that the ERS Board of Trustees adopted new option factors for pension calculation that will affect members with membership dates prior to July 1, 2012 and who retire after December 31, 2013. If you are a member who is considering whether to retire in 2013 or in 2014, we encourage you to read this article and if you have any questions to contact the ERS. Please note that any member who wishes to retire this year must file a retirement application no later than November 29, 2013.

The New Option Factors Do Not Change Accrued Benefits

The new option factors do not change the accrued benefits of ERS members. An ERS member's maximum retirement allowance - the member's lifetime retirement benefit established by law - is not changed by the new option factors. An ERS member's maximum retirement allowance will be the same under the new option factors as it is under the current option factors. An ERS member's maximum retirement allowance is what the member will receive after retirement if the member does not take any lump sum payment (withdrawal of contributions) at retirement and does not provide for any retirement benefit to be paid to a beneficiary after the member's death.

Instead of the maximum retirement allowance, ERS members may elect to receive their retirement benefits under various optional forms of payment. For example, an ERS member may elect to receive a lump sum payment at retirement and/or provide for retirement benefits to be paid to a beneficiary after the member's death. By law, these optional forms of payment or retirement benefit payment options are to be actuarially equivalent to the maximum retirement allowance. In order to be actuarially equivalent, the ERS must use actuarially equivalent option factors to determine how much to pay members and their beneficiaries under the various retirement benefit payment options.

The new option factors may affect ERS members who select a retirement benefit payment option other than the maximum retirement allowance. Use of the new option factors may result in such members and their beneficiaries receiving a higher or lower monthly retirement payments than they would under the current or old option factors. Exactly how the new option factors will affect an ERS member depends on the member's particular circumstances and which retirement benefit payment option the member selects.

The Adoption of the New Option Factors

As discussed above, the ERS uses actuarially equivalent option factors to determine how much to pay members and their beneficiaries under its retirement benefit payment options. These option factors are based on actuarial assumptions, including mortality assumptions (the life expectancies of ERS members and their beneficiaries) and the investment return assumption (the investment return rate that the ERS uses for actuarial purposes). When the ERS Board of Trustees determines that its actuarial assumptions are no longer supportable, the Board adopts updated assumptions and new option factors based on the updated assumptions.

Based on information and advice from its actuary, the Board recently updated its mortality assumptions. ERS members, like the populace in general, are living longer. In 2011, the Legislature reduced the ERS investment return assumption from 8% to 7.75%. After consulting with its actuary and other consultants, the Board requested this change because it believed that 8% was no longer a return rate that could be reasonably expected over the long term for ERS investments. These changes in the mortality and investment return assumptions were significant enough for the actuary to recommend that the Board adopt new option factors which the Board elected to do.

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Vijoy (Paul) Chattergy

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Wes' Corner



This year of 2013 has gone by quickly, yet there is so much more to accomplish before the end of the calendar year. Most importantly, we want to build on our 12 percent investment return for the 2013 fiscal year by doing the same or better for the 2014 fiscal year. To help us do that, our Investment Office recently hired two Investment Specialists to help our Chief Investment Officer monitor our investment activities and reduce investment costs. And we are reviewing our laws and best practice policies to determine possible legislative proposals for the 2014 legislative session.

Among the things we have already accomplished is that the ERS website has been updated to include more information to employers, members, and retirees. Many of you use the website for different reasons. In fact, there were 249,967 viewings of our website from January 1, 2013 through the end of July 2013. The benefits calculator was the most viewed/used page on our website. In terms of usage, it was followed by: members-retirement planning, members-active/new hires, resources-all publications, members-leaving employment, resources-all forms, resources-contact us, retirees-pension information, and investments.

For our members, the on-line service information on our website is scheduled to be updated in November 2013. For our retirees and beneficiaries, we hope that all of you received your post retirement increases in July 2013.

Although there were over 14,000 members eligible to retire this past fiscal year, a little over 1,900 members retired in the fiscal year 2013 bringing the total retirees and beneficiaries to over 41,000. The past five years have reported annual retirements near or exceeding 2,000.

We hope that the remainder of 2013 will be a positive one for you and your family.

Aloha,
Wes Machida

Our web benefits calculator has a new look

Visit our website at ers.hawaii.gov and you'll see that we've re-launched our benefits calculator with a new look.

Now the look and feel are more cohesive and match the current ERS website and Self Service Portal. We've also incorporated a mobile responsive design that enables members to access the same service while on the go using a mobile smart device.

This update also includes the new option factors for members hired prior to July 1, 2012, and who plan on retirement before or after January 1, 2014.

We encourage members to visit our web site and use the calculator to help them better plan for their retirement.

Online Service Update

ERS is currently working towards making updated member information available on our website in early November 2013. The updated information will reflect the service credit information as of June 30, 2013 and will apply to Contributory, Noncontributory and Hybrid plan members. Members will be able to view their credited service information, as well as their retirement account balances, as of the date indicated. Please note, however, that it is not uncommon for dates and balances to vary between members due to payroll lag and payroll adjustments. Your "Retirement Account" information provides a snapshot of your retirement plan, account balance, and total creditable years of service on a specific date. If there is any discrepancy with your retirement account information, click on the link to the Correction Form and mail to ERS with a copy of your "My Retirement Account" screen print. Upon completing our research, information will be updated. Our research may take into account information from your current and previous departments to correct and/or clarify your personnel and payroll transactions. We appreciate your patience as we verify the necessary information. You can visit our website @ <http://ers.hawaii.gov> and go to "Login to Self Service" to view your information. Enter your last name, date of birth, and the last 4 digits of your Social Security Number.

We encourage you to visit our online service as your assistance is needed to ensure your record is accurate. As a defined benefit plan, your retirement eligibility and pension are primarily based on your years of creditable service. Therefore, accuracy of your service credit will help us avoid delays in determining your benefit eligibility and calculating your retirement pension when you retire.

The Impact of the New Option Factors

The new option factors do **not** affect ERS members who select the maximum retirement allowance. For other ERS members, the impact of the new option factors will vary depending on the member's particular circumstances (e.g., the member's and beneficiary's age at retirement) and the retirement benefit payment option the member selects.

Members who are considering whether to retire in 2013 or 2014 can use the ERS Benefits Calculator to see what impact the new option factors will have on their retirement benefits. The ERS Benefits Calculator may be used to generate estimates with specified retirement dates and has been updated with the new option factors for 2014. The Benefits Calculator is on the ERS website: <http://ers.ehawaii.gov/>.

Members considering whether to retire in 2013 or in 2014 should also consider the following:

- (1) *How their retirement benefits are affected under different retirement benefit payment options.*
- (2) *Whether delaying their retirement to 2014 would make up for the one year delay in receiving their first 2.5% post-retirement allowance increase (this increase is effective July 1 following the year in which the member retires).*
- (3) *How much their retirement benefits may increase if they work longer, particularly if their salary will be higher in 2014.*

Members who have questions regarding the new option factors and how it may impact their retirement should contact the ERS at (808) 586-1735.

Illustrative Examples - Current and New Option Factors

The new options factors do not affect Members who select the Maximum Allowance option.

In the hypothetical examples below, it is assumed that the member has a maximum retirement allowance of \$5061 per month and the accumulated contributions of \$287,201. These hypothetical examples illustrate how the change in option factors can impact the monthly retirement benefit of members who retire on December 31, 2013 versus January 1, 2014. Please note that not all the retirement plans and options are provided in these examples.

In general for all other options:

MEMBER RETIRING YOUNGER THAN AGE 60:

- Members selecting a non-refund option may receive a slightly lower benefit with the new factors.
- Members selecting a refund option may receive a slightly lower or higher benefit with the new factors depending on the amount of the refund and refund option selected.

Example #1: Member's age: 55 Beneficiary age: 50

Options	Retirement Dates		Monthly Payment Change from 12/31/2013	Percentage Change from 12/31/2013
	12/31/2013	1/1/2014		
Maximum	\$5061	\$5061	None	None
Two (100% Joint Survivor)	\$4483	\$4446	- \$37	- 0.8%
Five (100% Refund)	\$3306	\$3351	+ \$45	+ 1.3%

MEMBERS RETIRING AGE 60 AND OLDER:

- Regardless of option selected, Members are expected to receive a higher pension under the new factors.

Example #1: Member's age: 65 Beneficiary age: 60

Options	Retirement Dates		Monthly Payment Change from 12/31/2013	Percentage Change from 12/31/2013
	12/31/2013	1/1/2014		
Maximum	\$5061	\$5061	None	None
Two (100% Joint Survivor)	\$4146	\$4224	+ \$78	+ 1.9%
Five (100% Refund)	\$2964	\$3102	+ \$138	+ 4.6%

Report from Vijoy Chattergy, Chief Investment Officer

Aloha Kakou. Over the last couple of Holomua articles, I introduced the imprecise but useful notions of investment return driven by information and investment risk driven by variability. With this in mind, we can state that in a very practical sense, the role of the ERS Investment Office is to maximize the certainty of returns and to minimize the uncertainty of risks. Therefore, it is valuable to focus more attention on the twin concepts of risk and return, and develop an intuitive feel for their importance in the work of investment management.

First off, describing the risk and return concepts as twins is not quite right. Higher returns are good. Higher risks are bad. The relationship is not identical but somewhat inverted. Better to say that risk is the evil twin of return. That builds some degree of intuition, but the more accurate relationship is of a duality, whereby one is inseparable from the other. The relevant analogy might come from Taoist eastern philosophy in the form of the yin and yang (阴阳). Alternatively, we can borrow from the world of science, where there is the space/time continuum and also the wave/particle duality. These concepts may be too mystical or complicated for our purpose, but the point is that duality is not something unexpected or unknown.

Any investment can be characterized as exhibiting a return expectation or a risk probability. For example, stocks as an asset class have historically returned an average of 8% over the long term. Also, the historical implied volatility (i.e., risk) of the S&P 500 stock index has been 15%. However, the better way to evaluate an investment opportunity is to combine the risk and return characteristics into a comprehensive metric.

An illustration may be helpful. Assume investors A and B achieved identical target returns of 3% over the last 12 months. Investor A achieved this return through a bank CD with a one-year term and a 3% fixed rate. Investor A then spent the next 52 weekends enjoying the beach with family. Investor B achieved this return by playing Blackjack in the casino over 52 weekends. The returns were identical, so should we be indifferent as to which strategy to prefer? No. Investor A earned 3% with very minimal risk. Investor B earned 3% with greater uncertainty of the outcome. The strategy of Investor A is superior when understood by accounting for both return and risk. There are more formal measures that quantify risk-return investing, which we can return to in a future Holomua.

What would motivate an investor to engage in a more risky strategy? Generally speaking, investors will expect to earn higher returns for accepting higher risks. In our illustration, Investor B might have expected a 20% or 50% return to spend long weekends under the artificial lights of the casino. While the 3% return would be completely expected and, therefore, satisfying to Investor A, Investor B might be extremely disappointed.

Coming back to the ERS investment portfolio, there is an explicit return objective for the fund of 7.75%. There is also an implicit fiduciary responsibility to achieve that target return with as little risk as necessary. The role of the Chief Investment Officer is to work with the consultants to measure, evaluate, and recommend investments to the Board of Trustees that achieve the expected return objective while minimizing risk over the long term. The role is simple to state, relatively easy to understand and accept, but difficult to execute.

The risk-return duality of investment management requires investors to be disciplined and focused to be successful. Complicating matters further, the relationship between return and risk is dynamic. Return expectations and risk concerns may change depending on the market environment, as characterized by inflation, interest rates, and growth factors. Assessing these factors is ultimately what governs the risk-return opportunities and successful investment management.

ERS Board of Trustees Transitions

On August 1, 2013, elected member trustee and Employees' Retirement System (ERS) Board Chair, Mr. Emmet Kane retired from the Honolulu Fire Department after over 26 years of dedicated service. During his tenure, Mr. Kane served as a Deputy and Assistant Fire Chief with the HFD and also served on the Executive Board of the Hawaii Fire Fighters Association. The ERS wishes to commend and congratulate Mr. Kane for his outstanding leadership and service to the ERS and the people of Hawaii.

In addition to Mr. Kane's retirement, there will be two open seats on the Board of Trustees for terms ending January 1, 2014. One seat is for a general employee and the other is for a retiree. The period of nominations for both seats expired on August 29, 2013. Of the eight board members, four are elected (two general employees, a teacher and retiree) and three are citizens of the State appointed by the Governor, and the State Director of Finance is an ex-officio member by statute. Each elected and appointed trustee serves six year terms.

The ERS Board, at its August 12, 2013 meeting, elected Ms. Pilioloha Lee Loy to succeed Mr. Kane as Board Chair. Ms. Lee Loy has been an ERS trustee since January 2, 1992 and is a teacher with the Department of Education at Aliamanu Elementary School. With over 40 years of service with the DOE, including over 20 of those years as an ERS trustee, Ms. Lee Loy will capably guide the Board and the ERS through these changes and transitions.

News from the EUTF

News from the Hawaii Employer-Union Health Benefits Trust Fund (EUTF)

Below are some common qualifying events that allow you to make enrollment changes during the plan year. Be sure to familiarize yourself with the timelines and required documents.

Common Qualifying Events That Allow Enrollment Changes for Active Employees

EVENT	WHEN EC-1/EC-1H MUST BE SUBMITTED TO EMPLOYER (Personnel Office)	DOCUMENTATION REQUIRED TO BE ATTACHED TO EC-1/EC-1H	EFFECTIVE DATE	CAN I CHANGE PLANS (such as HMSA to Kaiser or HMSA 90/10 to 80/20)?
Acquisition of Coverage (employee gets coverage from another plan and wishes to cancel EUTF plans)	Within 30 days from effective date of gaining coverage elsewhere	None	If coverage is gained 1st of month, EUTF coverage ends day before 1st. If coverage is gained 16th of month, EUTF coverage ends 15th	N/A
Birth (employee wishes to add newborn to EUTF plans)	Within 30 days from date of birth	Birth certificate only if child has a different last name from employee. Social Security Number within 60 days of date of birth	Employee can choose: birth date, beginning of next pay period after birth date, or 2nd pay period after birth date	No
Divorce (employee must terminate spouse's or civil union partner's coverage)	Within 30 days of date of divorce	Pages 1 and 2 of divorce decree, along with signature page. If children are involved, those pages that outline health benefits for children	Coverage ends last day of pay period in which divorce date occurs	No
Leave of Absence Without Pay (employee may continue coverage by paying his/her share of premium or terminate coverage)	Within 30 days from beginning of LWOP to waive plans. To reenroll after LWOP EC-1/EC-1H must be submitted within 30 days of return from LWOP	Form L-1 completed by employer (available on EUTF's website)	If employee cancels plans, last day of pay period in which LWOP begins	No
Loss of Coverage (employee and/or dependent lost coverage from a non- EUTF plan, wishes to enroll in EUTF plans, and is currently enrolled in an EUTF plan)	Within 30 days from loss of other coverage	Loss of coverage letter from previous employer carrier detailing type of coverages lost (i.e., medical, dental, drug, vision), date of loss of coverage, and names of any covered dependents	Day following loss of coverage from other plan	N/A
Marriage (employee wishes to enroll new spouse in EUTF plans)	Within 30 days from date of marriage (effective date is date personnel office receives EC-1/EC-1H. If notification submitted prior to marriage, effective date is date of marriage)	None	Employee can choose: Date form turned into personnel, beginning of next pay period after turning in form to personnel or 2nd pay period after turning form into personnel	No
Newly Eligible Student (employee wishes to add child in dental or vision plan because child became a full time student and is between the ages of 19 and 24)	Within 30 days from date of school start date	Student certification from an accredited college on school letterhead with registrar's signature confirming full time status (for dental and vision coverage). Transcripts not acceptable	Employee can choose: Date child becomes full time student, beginning of next pay period after becoming full time student, or 2nd pay period after becoming full time student	No

Note: For termination and transfer of employment or bargaining unit changes or death the employer is required to notify EUTF immediately of the termination, transfer, BU change, or death.

Important: The EUTF is a separate organization from the ERS. If you have any questions about information in this article, please **DO NOT** contact ERS. Please contact the EUTF directly at 586-7390 or toll-free at 1-800-295-0089, or email the EUTF at eutf@hawaii.gov. You can also visit our website for more information @ www.eutf.hawaii.gov.



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Holomua

Active Members

July/August/September 2013

Ask ERS

Answers to some frequently asked questions about the new option factors:

Q: Why is the ERS changing retirement benefit option factors in 2014?

A: The option factors were modified to reflect the significant changes in the ERS investment rate of return and life expectancies (mortality assumptions) of our membership. These factors will only apply to optional modes of retirement payments other than the Maximum Allowance which is purely based on the member's plan, years of service and average final compensation. Option factors apply to the various retirement payments with possible beneficiary benefits and contribution refunds.

Q: Do the new option factors apply to everyone?

A: No. These new factors apply only to members who were hired prior to July 1, 2012 and who retire after December 31, 2013.

Q: When would the 2.5% post retirement (PR) increase start if I decide to retire on January 1, 2014 rather than December 31, 2013?

A: The PR increase for a January 1, 2014 retiree would begin on July 1, 2015, approximately 18 months after retirement. This is an important factor that needs to be weighed. If you retire on December 31, 2013 (one day earlier), you would receive your PR increase approximately 7 months after retirement – on July 1, 2014.

How to Contact Us

Monday-Friday 7:45 a.m. - 4:30 p.m.
(except State holidays)

Oahu Office, Phone: (808) 586-1735

Kauai Office, Phone: (808) 274-3010

Hawaii Office, Phone: (808) 974-4077

Maui Office, Phone: (808) 984-8181

Molokai & Lanai, toll free to Oahu:
1-800-468-4644

Continental U.S. toll free to Oahu:
1-888-659-0708